

Minutes of the Executive Compensation of the Board of  
Directors of CareFirst, Inc., held February 22, 2001

Members Present: Joe Haskins, Ed Baran, Hanan Sibel, George Wilkes

Also Present: Dan Altobello, William Jews, Sharon Vecchioni &  
Don Barnes of the HayGroup

The committee approved the minutes of the October 26, 2000 meeting.

**Annual Compensation Review**

The committee reviewed the annual merit and incentive plan recommendations. **They approved a total merit increase of 4.1% against a budget of 4.3%.**

The committee also reviewed the company performance in 2000 against the goals of the incentive plan. The company achieved target plus performance against the market growth goals; target minus level against the net income goals, and threshold plus performance against the underwriting goals. Based upon the performance, **the following payout levels were approved by the committee:**

**123.25% payout for associates  
121.18% payout for management and  
97%-104% payout for executive vice presidents**

The committee also reviewed the long-term incentive plan payout recommendation for the 3-year time period 1998-2000.

- The plan has two measures:
  - Contract annual growth rate and
  - economic value creation
- CareFirst growth rate over the 3-year time period was 7% versus a target of 3%.
- CareFirst performance in financial terms as measured by economic value creation was 10.8% against a target of 6%.
- This solid performance produced an award value of \$167.14 per unit. These results were verified by the company's compensation consultant, Don Barnes of the HayGroup and approved by the committee.

The committee then reviewed overall company performance more extensively and the specific performance of each executive vice president. **After a thorough review, the committee approved the recommended compensation for the executive vice presidents.**

Respectfully submitted,

Sharon J. Vecchioni

**EXECUTIVE SESSION**  
**February 22, 2001**  
**CEO PERFORMANCE AND COMPENSATION**

Attendees: Joe Haskins, Ed Baran, Hanan Sibel, George Wilkes

Also Present: Don Altobello, Sharon Vecchioni, Mike McShane,  
and Don Barnes, HayGroup Consultant

- The committee reviewed the company's as well as the CEO's performance for 2000, through the use of a handout which was shared with the committee and which is made a part of these minutes.
- The committee also reviewed the compensation data provided by the HayGroup on the marketplace for CEO's to determine the salary level for Bill Jews.
- The data showed a market reference of \$807,400 for similar size companies. Bill Jews' current salary is \$808,500. Mr. Barnes recommended an 8% increase for commendable CEO performance or 12% increase for superior performance.
- Based on this data and Mr. Jews' performance, the committee approved a base salary of \$900,000.
- In addition, the committee approved an annual incentive payout of \$1,146,296 based on CEO performance for the year 2000.
- The long term incentive calculation for the CEO produces a payout of \$802,272 based on the company's performance over the 3-year time frame. Seventy percent of this bonus is paid in cash (\$561,590). Thirty percent will be deferred. **The committee approved the long-term incentive recommendation.**
- The approved compensation will be recommended to the Board of Directors at the April 26<sup>th</sup> meeting.

Respectfully submitted,

Sharon J. Vecchioni

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Minutes of Special Compensation Committee Meeting,  
Of the Board of Directors of CareFirst, Inc. held  
March 23, 2001

Members Present: Joe Haskins, Ed Baran (via telephone), Hanan Sibel,  
George Wilkes

Also Present: Dan Altobello, William Jews, Sharon Vecchioni and  
Don Barnes, of the HayGroup

The following topics were discussed:

Management Retention

- ☐ The committee reviewed a historical perspective of CareFirst from 1992 through 2000 through the use of a handout which was shared with the committee and which is made a part of these minutes. The following highlights were noted:

|                              |        |
|------------------------------|--------|
| Enrollment Growth            | + 214% |
| Revenue Growth               | + 390% |
| Statutory Surplus            | + 886% |
| Administrative Expense Ratio | - 26%  |
| Associate Base               | + 168% |

- In 1992, the worst Plan in the BCBS Association for customer service, to top quartile performance for most of the past 8 years.
  - Low associate morale and pride in company to above industry scores on associate satisfaction surveys in 1998 and 2000.
  - Turnover of Senior Management in 1992 to stabilized senior management team in 2000.
  - One of the largest health insurers in the Mid-Atlantic Region. Control four territories in Multi-regulatory jurisdictions.
- ☐ Don Barnes of The HayGroup noted that the next strategic transition will take place over an 18-24 month period and requires approval in multiple regulatory jurisdictions and the United States Congress. Retention of management will be critical during this time period to:

Special Compensation Committee Meeting  
March 23, 2001

- Maintain stability of operations
  - Maintain and enhance the value of the company
  - Fully support strategic alliance
  - Maximize price during negotiations
  - Create background for smooth integration with a partner
  - Retain management in the event a proposed acquisition does not take place
- ☐ It was further noted that because the external market often targets key talent, the risk of talent defection increases.
- ☐ The committee asked Mr. Barnes to develop a retention program that will align the company's interests with the interests of the company's external stakeholders. It was also requested that the program ensure that management has the necessary incentives to drive the sale process through conclusion for the benefit of the stakeholders.
- ☐ Mr. Barnes will develop a retention program for the committee's review and approval at a special compensation committee meeting scheduled for April 20, 2001.

Transition and Severance Support

- ☐ The committee reviewed a transition and severance plan for CareFirst associates to be effective during a potential merger. Don Barnes indicated the plan was in line with the marketplace. The plan includes the following benefits and features:
- Standard severance package often enhanced for affected associates during M & A activity